

REPORT TO: **CABINET**

DATE: **21 JANUARY 2021**

TITLE: **HOUSING REVENUE ACCOUNT BUDGET 2021/22**

PORTFOLIO HOLDERS: **COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES**
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This is a Key Decision

It is on the Forward Plan as Decision Number I011382

The decision is not subject to Call-in Procedures for the following reason:

The decision stands as a recommendation to Full Council

This decision will affect no ward specifically.

RECOMMENDED that Cabinet recommends to Full Council that:

- A** Approves the Housing Revenue Account estimates as set out in Appendix 2 to the report.
- B** Approves that tenant rents are increased by CPI plus 1 per cent (1.5 per cent) with effect from 5 April 2021. This equates to an average weekly rent of £93.66 an increase of £1.38 (set out in paragraph 4 of the report).
- C** Approves that the rents and personal charges for temporary accommodation be increase by an average of 1.5 per cent with effect from 5 April 2021 (set out in paragraph 5 of the report).
- D** Approves that garage rents within the 'retain and invest' category are increased by 5 per cent with effect from 1 April 2021. This equates to an average weekly

rent of £11.20, an increase of £0.53. Also approves the proportionate increases for other garages, car ports and car spaces (set out in paragraph 6 of the report).

- E** Approves that tenant service charges are increased by an average 1.5 per cent with effect from 5 April 2021 This equates to an average weekly service charge of £2.34 (see paragraphs 7 to 9 of the report and Appendix 1 attached to the report).
- F** Approves that other housing related support charges for sheltered accommodation are increased to recover full cost with effect from 5 April 2021 (see paragraphs 10 to 14 of the report and Appendix 1 attached to the report).
- G** Approves that tenant heating charges are increased by an average 2.9 per cent with effect from 5 April 2021. This equates to an average weekly heating charge of £9.50 an increase of £0.27. For tenants in sheltered accommodation this equates to an average weekly charge of £7.04 an increase £0.20 (see paragraphs 15 to 17 of the report and Appendix 1 attached to the report).
- H** Approves that the leasehold service charges are increased with effect from 1 April 2021 to ensure that all leaseholder costs are recovered (see paragraphs 18 to 22 of the report and Appendix 1 attached to the report).
- I** Approves that all other tenant charges are increased with effect from 5 April 2021 in order to recover cost (see Appendix 1 attached to the report).

REASON FOR DECISION

- A** The Housing Revenue Account (HRA) reflects the statutory requirement under Section 74 of the Local Government & Housing Act 1989 to account separately for the local authority housing services. It is a ring fenced account containing the costs of managing the Council's housing stock which is offset by tenant's rents, tenants and leaseholders service charges and other contributions. The Council has a statutory responsibility to set a balanced HRA budget and avoid any deficits.

BACKGROUND

1. The HRA Business Plan 2019-2049, approved by Full Council in January 2020 reflected a number of themes which have been developed. These include:
 - a) The Council's ambition to build new housing of all tenures;
 - b) Changes to the investment strategy to reflect the increased fire safety and associated Regulation following the fire at Grenfell Tower.

- c) An increase in the number of properties being identified with structural issues and the associated budgetary pressures upon the Housing Capital Programme;
 - d) Implementation of the Homelessness Reduction Act 2017 which imposed new statutory processes/duties;
 - e) Implementation of Universal Credit (UC) and benefit rules and its implications on tenants; and
 - f) Inflationary pressures, including that of the Council's contractual arrangement with HTS (Property and Environment) Ltd (HTS) which undertake much work for tenants and leaseholders.
2. The Business Plan 2019-2049 is now being updated to reflect recently developments including and the negative impact of the Covid-19 pandemic

HRA Business Plan Assumptions 2021/22

- 3. The HRA budget 2021/22 has been prepared on the basis of those assumptions agreed in the Business Plan 2019/20 to 2048/49 which are as follows.
 - a) To implement the Rent Standard 2020 and increase dwelling rents annually by CPI plus 1 per cent. Uplifts are based on the Consumer Price Index (CPI) in the previous September and from April 2021 rents will increase by 1.5 per cent.
 - b) The rental income estimates assume that in 2021/22 there will be 40 right-to-buy applications and that the percentage number of voids will be 1.27 per cent of total stock or an average of 116 vacant properties.
 - c) To increase garage rents by five per cent annually.
 - d) To fully recover all utility and other premises costs from tenants and leaseholder through service charges.
 - e) Implement the staff pay award in accordance with current Government policy with effect from 1 April 2021.
 - f) The Major Repairs Allowance is no longer used to calculate the charge for depreciation. Instead the Existing Use Value for Social Housing (EUVSH) spread over the estimated life of the asset will be used.
 - g) Renew the Public Works Loan Board (PWLB) debt of £208.837 million and any additional borrowing as reflected in the current capital programme.
 - h) Maintain a minimum HRA working balance at 31 March 2021 at £4 million, being £2.5 million for extraordinary events and £1.5 million for

fire safety work the final report of the Grenfell Tower Public Inquiry to be addressed once it has been published.

- i) Retain the housing asset management plans as outlined below:
 - i) Maintain compliance of the Council's housing stock to the housing regulatory requirements. Continuing with the replacement regime (based on stock condition survey) for internal and external property components such as kitchens, bathrooms, central heating systems, roofs and external structure of homes;
 - ii) Prioritise resources to safeguard the well-being and safety of the Council's tenants in their homes in regard to increased statutory and legislative landlord requirements for fire safety, electrical (communal) safety, asbestos management and lift maintenance;
 - iii) Prioritise energy efficiency initiatives that alleviate fuel poverty;
 - iv) Prioritise resources for disabled adaptations to meet statutory requirements and keep under review annually;
 - v) Reduce resources to garage-related works and re-prioritise the approved Garage and Hardstand Strategy;
 - vi) Realise further efficiencies from responsive repairs programmes and scope of works; and
 - vii) Develop a three year housing programme to outline the aspirations for the delivery of new housing. In accordance with local plan priorities, regeneration priorities, and affordability/viability.

ISSUES/PROPOSALS

Rents – Tenants

4. The Rent Standard 2019 was introduced on 1 April 2020 following the four year period when under the Work and Welfare Reform Act 2016 rents were reduced by one per cent each year. The Rent Standard 2019 allows all registered providers of social housing to increase rents by CPI plus 1 per cent. The CPI in September 2020 was 0.5 per cent and therefore from 5 April 2021 housing rents will increase by 1.5 per cent. The average rent will increase from £92.28 to £93.66 per week.

Rents - Temporary Accommodation

5. It is proposed that the following rents in respect of Homelessness Services will be increased with effect from 5 April 2021:

- a) The rent charged for temporary accommodation in the HRA for a single room will increase from £36.05 to £36.59 per week and from £51.50 to £52.27 for a double room. In addition the weekly personal charge and recharge for council tax will increase from £20.30 to £21.59 per room.
- b) The rent charged for nightly lets will increase from £129.23 to £131.17 per week for a one bed studio/property, from £145.39 to £147.57 for a two bed property and from £185.89 to £188.68 for a three bed property.
- c) The rent charged for bed and breakfast accommodation will increase from £129.23 to £131.17 per week.
- d) The rent charged for non HRA temporary accommodation from £129.23 to £131.17 per week for a one bed studio/property, from £145.39 to £147.57 for a two bed property and from £185.89 to £188.68 for a three bed property.

Rents – Garages

6. It is proposed to increase the rent on garages held as "retain and invest" and related charges by 5 per cent. The rent of a standard garage would rise by £0.53 per week to £11.20.

Service Charges – Tenants

7. Service charges are made in addition to rents. In total nine separate service charges are applied and the Council has published a range of service standards to support the implementation of service charges. These are regularly reviewed in consultation with tenants to ensure the principles of service charges in terms of transparency, improved service delivery and greater accountability are delivered in practice.
8. The key features to the calculation of service charges are:
 - a) Actual, not estimated, cost of service charges are recovered from both tenants and leaseholders, subject to the availability of reasonable data. This means that any difference between the actual cost and estimated cost will be collected or refunded two years after the closure of accounts. This means that any difference in 2020/21 charges will be collected/refunded in 2022/23.
 - b) Charges should be consistent to tenants and leaseholders and be fully recovered wherever possible.
9. A schedule of proposed increases in tenant service charges is set out in Appendix 1 to the report together with a comparison with the current weekly charges.

Service Charges – Supported Housing

10. The Council's Supported Housing service consists of 16 sheltered housing schemes, one extra care scheme for the frail elderly, and a community support function for 1,000 private clients living independently across the town.
11. Housing Related Support (HRS) forms part of the Government's Health and Social Care agenda that promotes older persons wellbeing and independence. The Act does not stipulate specific services to fulfil this requirement. The Council in addition to its role as landlord delivers HRS services to older vulnerable people.
12. Following the reports to Cabinet and Scrutiny Committee in 2017, Officers have continued to work with service users of HRS, consulting widely with them and their families to ensure awareness has been raised of the funding gaps, signposting benefit entitlement, as well as possible financial support from other agencies in order to protect service users whilst increasing service income.
13. A schedule of proposed increases in supported housing and HRS charges is set out in Appendix 1 to the report together with a comparison with the current weekly charges
14. In October 2020, the Ministry of Housing, Communities and Local Government (MHCLG) published a new National Statement of Expectations (NSE) for supported housing. This sets out the Government's expectation of the standard, quality and value for money in supported housing for vulnerable people. Initially MHCLG have funded five pilot schemes to improve quality, enforcement, oversight and value for money in supported housing. There is no announcement for Harlow but it is anticipated that there will be developments in the future.

Service Charges - Heating

15. Heating charges are made in respect of blocks of flats and clustered properties where communal heating and hot water is provided via a District Heating System. The Council supplies the gas used to run the communal boilers and re-charges residents for the energy they use within their homes under the fuel charge levied.
16. The Council remains committed to tackling fuel poverty for residents. The cost of energy that is passed on to tenants is assessed each year to ensure the Council is not putting its residents at risk of fuel poverty.
17. Gas prices are increasing and it is estimated that with effect from 5 April 2021, tenants weekly heating charge will increase by 2.9 per cent. The average weekly charge to tenants will be £9.50, an increase of £0.27. For tenants in sheltered accommodation the average weekly charge will be £7.04, an increase of £0.20.

Service Charges - Leaseholders.

18. Similarly, with leaseholders it is the responsibility of the Council to recover all costs including maintenance costs and major works. All leaseholders are provided with an estimate of their annual services charges at the beginning of the financial year. Once the actual costs are known following the closure of the accounts the leaseholders are given an amended invoice showing actual cost and they are charged or refunded accordingly.
19. Current legislation allows landlords to recover the costs of administering leasehold services from its leaseholders. It is recommended that the annual management fee be reduced from £208.62 to £204.44.
20. The charge for the registration of a sublet will increase to £89.99 (£88.55 in 2020/21). The charge applies to individuals who acquire a leasehold property for the purpose of sub-letting. Under the terms of the leases all landlords must advise the Council of any under lease and these must be registered appropriately and that a fee may be charged.
21. Tenants who exercise their Right to Buy (RTB) make a one off contribution into an In Perpetuity Fund for grounds maintenance, amenity cleaning and litter picking. The contribution to the fund is intended to cover future maintenance for 80 years. It is proposed that this charge will increase in line with September 2020 CPI which was 0.5 per cent. This equates to a contribution of £5,613, an increase of £27.93.
22. It is proposed that other leasehold legal charges are also increased by September CPI with effect from 1 April 2021. A schedule of proposed increases in leaseholder legal costs is set out in Appendix 1 to the report together with a comparison with the current charges.

Revised HRA Budget 2020/21

23. The Quarter 2 HRA finance report highlighted the following variations to the approved budget primarily as a result of the Covid-19 pandemic.
 - a) In the first quarter of 2020/21 there was an increase in tenant rent arrears due the Covid-19 restrictions and the relaxation of collection procedures. The latest data shows that there has been a two per cent improvement in performance during the second quarter when benchmarked against previous years. A steady increase in the number UC applications which are taking time to process and causing debt levels to rise. The Government have issued new guidance/procedures on rent collection which means that the Council's own process will have to be updated.
 - b) Similarly, the Covid-19 restrictions have had a significant impact on the number of void properties in the first two quarters of 2020/21. In Quarter 1 there were 25 more void properties than allowed for in the budget and the 30 year HRA business plan. The increased level in the number of void properties could have a negative impact on rental income and a detailed

plan has been established to reduce the number of voids to align with the business plan target by the end of the year.

- c) During Quarter 1, at the height of the Covid-19 restrictions, tenants and leaseholders were unable to receive all the services which they were paying for through service charges. For example “ground maintenance”. When the tenants and leaseholders are finalised they will have to be refunded for services they did not receive. This will reduce the amount of services charge income credited to the HRA.

HRA Estimates 2021/22

24. The draft HRA estimates 2021/22 is set out in Appendix 2 to the report and they have been prepared on the same basis as the business plan assumptions which have been set out in paragraph 3.

Working Balances

25. Section 25 of the Local Government Act 2003 requires the Head of Finance to report on the adequacy of reserves. In January 2020 Cabinet approved the recommendation to increase in the minimum HRA working balance to £4 million in order meet its obligations arising from recommendations from the Grenfell Tower Public Inquiry.
26. Based upon the budget figures set out at Appendix 2 to the report, the movement of the HRA working balances is shown in Table 1 below.

Table 1 Estimated Movement in Working Balances

Operating Account	2019/20	2020/21	2020/21	2021/22
	Actual £'000	Original £'000	Revised £'000	Estimates £'000
Balance at 1 April	13,731	6,428	15,751	5,992
Surplus / (Deficit) for year	2,020	(2,242)	(9,759)	(3,484)
Balance in hand at 31 March	15,751	4,186	5,992	2,508

27. It can be seen from Table 1 that the estimate deficit as at 31 March 2022 will be well below the £4 million. This is as a result of a significant drop in service charge income as a result of the Covid-19 pandemic. Service delivery has been severely restricted which means the tenant and leaseholder cannot be charged. It is essential that the level of working balance is kept under review to ensure that the HRA is sustainable.

Major Repairs Reserve

28. Authorities are required under the Accounts & Audit Regulations 2015 to maintain a Major Repairs Reserve (MRR) which controls an element of the capital resources required to be used on HRA assets or for capital financing

purposes. The regulations require the MRR to be credited with an amount equivalent to the total depreciation charge for all HRA assets.

29. The regulations require that the MRR can be used either to finance the capital programme or to repay housing debt. The HRA Business Plan 2020-2050 assumes that all the contributions will be used to finance the capital programme.
30. The Housing Capital Programme (HCP) can be found as a separate item on this agenda. It is estimated that there will be a nil balance on the MRR at 31 March 2021, as the estimated sum of £10.470 million will be fully used to finance the Housing Capital Programme in 2020/21.
31. Similarly, in 2021/22 the estimated sum of £10.736 million will be used to finance the HCP. The balance on the MRR as at 31 March 2022 will again be nil. The movement in the MRR is set out in Table 2 below.

Table 2 - Estimated Movement in Major Repairs Reserve				
Operating Account	2019/20	2020/21	2020/21	2021/22
	Actual £'000	Original £'000	Revised £'000	Estimates £'000
Balance at 1 April	0	0	0	0
MRR Contribution	10,624	10,229	10,470	10,736
Financing of Capital Exp	(10,624)	(10,229)	(10,470)	(10,736)
Balance as at 31 March	0	0	0	0

Housing Capital Receipts

32. During the year housing capital receipts are received from the sale of council house under right to buy as well as from the sale of housing land and other buildings. The Local Government Act 2003 and subsequent statutory instruments specifies how these receipts can be used by the Council. There are particular rules which apply to right to buy and it is for this reason that the must be kept separate from other housing capital receipts.

Retained Right to Buy Capital Receipts

33. Set out in Table 3 below is the estimated amount of the capital receipts that will be retained under right to buy and the amount to be used to finance the new build programme.

Table 3 Movement in Retained Right to Buy Receipts

Narrative	2019/20 Actual £'000	2020/21 Original £'000	2020/21 Revised £'000	2021/22 Estimates £'000
Balance at 1 April	(3,740)	(6,558)	(9,012)	(6,844)
Receipts Retained from Right to Buy	(5,479)	(4,906)	(1,797)	(3,220)
Receipts Used to Finance New Build	207	3,549	3,965	2,330
'				
Balance in hand at 31 March	(9,012)	(7,915)	(6,844)	(7,734)

34. Retained right to buy have to be spent within three years, otherwise they will have to be repaid to the Government plus interest at four per cent above base rate compounded quarterly.

Other Housing Capital Receipts

35. Housing capital receipts are also received from the sale of land and other housing buildings. Set out in Table 4 below is the movement of other housing receipts.

Table 4 Movement in Other Housing Capital Receipts

Narrative	2019/20 Actual £'000	2020/21 Original £'000	2020/21 Revised £'000	2021/22 Estimates £'000
Balance at 1 April	(89)	(89)	(200)	0
Other Housing Receipts Received	(1,799)	(1,904)	(830)	(1,257)
Other Housing Receipts Used	1,688	1,904	1,030	1,257
'				
Balance in hand at 31 March	(200)	(89)	0	0

36. There is currently no restriction on the use of other housing capital receipts. They can be used for any capital purpose.

Housing Capital Programme

37. The summarised HCP is set out in Table 5 below.

Table 5 HCP 2020/21 to 2025/26

PROJECT AREA	Revised 2020/21 £,000s	Budget 2021/22 £,000s	Budget 2022/23 £,000s	Budget 2023/24 £,000s	Budget 2024/25 £,000s	Budget 2025/26 £,000s
Core Programme	20,550	18,552	12,921	15,107	13,219	13,236
House Purchase Scheme	12,600					
New Build Programme	618	7,767	7,999	3,000	3,000	1,965
TOTAL HCP	33,768	26,319	20,920	18,107	16,219	15,201
FUNDED BY:-						
RTB Capital Receipts	(3,965)	(2,330)	(2,400)	(900)	(900)	(590)
Other Capital Receipts	(1,030)	(1,257)	(1,200)	(1,200)	(1,200)	(1,200)
Major Repairs Reserve	(10,470)	(10,736)	(10,864)	(10,946)	(11,028)	(11,111)
Direct Revenue Financing	(7,247)	(6,559)	(856)	(2,961)	(991)	(925)
Borrowing	(11,056)	(5,437)	(5,600)	(2,100)	(2,100)	(1,375)
TOTAL FUNDING	(33,768)	(26,319)	(20,920)	(18,107)	(16,219)	(15,201)

38. Delivery of the capital programme will depend on affordability and it essential that these schemes that are built in the budget and Business Plan are viable.

Significant Risks/Opportunities

39. The Covid-19 pandemic is having a significant impact on the HRA budget in 2020/21 and projected in 2021/22. Due to the Covid-19 restrictions the number of void properties is much higher than normal and this reduces rental and service charge income.
40. In addition during the lockdown restrictions both tenants and leaseholders have not had the same level of service that they would have normally. This reduced level of service will result in a reduction in service charge income.
41. Most of the services that tenants and leaseholders receive are provided by HTS under contract. Under the terms of the contract these payments will still have to be made because HTS is not responsible for the reduction in service.
42. Demand for homelessness and Harlow's housing shortage is well known, and remains high. In addition, the number of local residents on the Council's Housing Needs Register continues to grow and is a key measure of local housing need. Added pressures, as a result of Covid-19 have meant increased duties on local authorities. The ongoing internal/external accommodation provision will be affected by Government guidelines and constraints that will have a financial impact on housing need at Harlow, and the use of temporary accommodation. This has been reflected in the HRA revenue estimates for 2021/22. This will be reviewed during the year.

43. Coupled with a significant loss of service charge income is the urgent need carry out cladding work at Joyners Field Towers and the need to maintain the core capital programme. This is putting an extra strain on resources and the HRA balances are unacceptably low.

Consultation

44. During the pandemic Tenant and Leaseholder Panels have been suspended and there have been no meetings of the Housing Standards Board. Representatives are being provided with electronic and hard copies of the reports in order to obtain feedback whilst keeping the Housing Standards Board updated.
45. Dialogue with Tenant and Leaseholder representatives continue during these unprecedented times allowing them to make contributions, provide feedback, and ask questions relating to Cabinet reports. In addition, briefing papers relating to the Cabinet reports have been presented to the Housing Standards Board.

Conclusion

46. The HRA budget estimates for 2021/22 reflect the complex and ongoing fluid environment; stock owning local authorities are operating under. Significant risks and uncertainties have been outlined in the report and will be kept under review and reported in subsequent reports. Updates will be advised to Cabinet as part of its performance management/budgetary reporting process.
47. Accordingly, it has not been appropriate to update the current (January 2020 approved) HRA Business Plan due to the ongoing uncertainty caused by the implications for HRA Business Plan principles that have been in operation since 2012. It is anticipated work will commence on reviewing last year's Business plan approval in the first quarter of 2021/22.

IMPLICATIONS

Environment & Planning (Includes Sustainability)

As contained within the report.

Author: Andrew Bramidge, Head of Environment and Planning

Finance (Includes ICT)

As contained within the report.

Author: Simon Freeman, Deputy to the Chief Executive and Head of Finance and Property Services

Housing

Service implications and significant risks are set out within the report, and will form the basis of the updated Housing Revenue Account (HRA) Business Plan, when it is reviewed in 2021/22

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

No specific implications.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

As contained in the report.

Author: Simon Hill, Head of Governance

Appendices

Appendix 1 – Schedule of Service & Housing Related Charges

Appendix 2 – HRA Estimates 2021/22

Background Papers

None.

Glossary of terms/abbreviations used

CPI – Consumer Price Index

EUVSH – Existing Use Value for Social Housing

HCP – Housing Capital Programme

HRA – Housing Revenue Account

HRS – Housing Related Support

HTS – HTS (Property and Environment) Ltd

MHCLG – Ministry of Housing, Communities and Local Government

MRR – Major Repairs Reserve

NSE – National Statement of Expectations

PWLB – Public Works Loan Board

RTB – Right to Buy

UC – Universal Credit